

**REPORT OF THE AUDIT OF THE  
JOHNSON COUNTY  
CLERK**

**For The Year Ended  
December 31, 2005**



**WELLS & COMPANY, P.S.C.**

*Certified Public Accountants*

865 South Mayo Trail, Suite 7  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE JOHNSON COUNTY CLERK**

**For The Year Ended  
December 31, 2005**

Wells & Company, PSC has completed the Johnson County Clerk's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

#### **Financial Condition:**

Excess fees increased by \$13,440 from the prior year, resulting in excess fees of \$477,946 as of December 31, 2005. Revenues increased by \$308,787 from the prior year and expenditures increased by \$289,986.

#### **Deposits:**

The Clerk's deposits were insured and collateralized by bank securities or bonds.

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The Honorable R. T. Daniel, Johnson County Judge/Executive  
Honorable Sallee A. Holbrook, Johnson County Clerk  
Members of the Johnson County Fiscal Court

#### Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Johnson County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares its financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2005, in conformity with the regulatory basis of accounting.

The Honorable R. T. Daniel, Johnson County Judge/Executive  
Honorable Sallee A. Holbrook, Johnson County Clerk  
Members of the Johnson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated April 27, 2006, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Johnson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

*Wells & Company, PSC*

Wells & Company, PSC  
Certified Public Accountants

Audit fieldwork completed-  
April 27, 2006

JOHNSON COUNTY  
 SALLEE A. HOLBROOK, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

State Fees For Services		\$ 11,956
Fiscal Court		81,306
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 674,947	
Usage Tax	2,599,100	
Tangible Personal Property Tax	1,448,628	
Licenses-		
Fish and Game	10,307	
Marriage	9,867	
Occupational	75	
Deed Transfer Tax	42,324	
Delinquent Tax	<u>234,590</u>	5,019,838
Fees Collected for Services:		
Recordings-		
Deeds, Easements and Contracts	\$ 14,856	
Real Estate Mortgages	14,088	
Chattel Mortgages and Financing Statements	52,463	
Powers of Attorney	1,944	
All Other Recordings	<u>68,711</u>	152,062
Other:		
Miscellaneous Fees		18,142
Interest Earned		<u>525</u>
Total Revenues		\$ 5,283,829

The accompanying notes are an integral part of this financial statement.

JOHNSON COUNTY  
 SALLEE A. HOLBROOK, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2005  
 (Continued)

Expenditures

Payments to State:

Motor Vehicle -

Licenses and Transfers	\$ 527,968	
Usage Tax	2,518,218	
Tangible Personal Property Tax	554,903	

Licenses, Taxes, and Fees -

Fish and Game	10,202	
Delinquent Tax	30,089	
Legal Process Tax	<u>20,073</u>	\$ 3,661,453

Payments to Fiscal Court:

Tangible Personal Property Tax	\$ 136,006	
Delinquent Tax	24,740	
Deed Transfer Tax	<u>40,208</u>	200,954

Payments to Other Districts:

Tangible Personal Property Tax	\$ 700,669	
Delinquent Tax	126,788	
Fire Departments	<u>1,683</u>	829,140

Payments to Sheriff

2,893

Payments to County Attorney

27,704

Operating Disbursements:

Other Charges -  
 Miscellaneous

8,278

Total Expenditures

\$ 4,730,422

JOHNSON COUNTY  
 SALLEE A. HOLBROOK, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2005  
 (Continued)

Net Revenues		\$ 553,407
Less: Statutory Maximum		<u>69,466</u>
Excess Fees		\$ 483,941
Less: Expense Allowance	\$ 3,600	
Training Incentive Benefit	<u>2,395</u>	<u>5,995</u>
Excess Fees Due County for the Year Ended December 31, 2005		\$ 477,946
Payments to Fiscal Court - Various Dates		<u>477,946</u>
Balance Due Fiscal Court at Completion of Audit		<u><u>\$ -</u></u>

The accompanying notes are an integral part of this financial statement.



JOHNSON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the Fiscal Court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the Fiscal Court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the Fiscal Court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

D. Fee Pooling

The Johnson County Clerk is required by the Fiscal Court to participate in a fee pooling system. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The fee official is responsible for paying all amounts due the taxing districts. Residual funds are then paid to the County Treasurer on a monthly basis. Invoices are submitted to the County Treasurer to document operating expenses. The County Treasurer pays all operating expenses for the fee official.

Note 2. Employee Retirement System

The County officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The County's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a written policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Leases

- A. On January 3, 2003, the County Clerk entered into a capital lease agreement with Xerox for three copiers. The lease is for four years and requires monthly payments of \$362.58. This lease was paid in full during the period.
- B. On January 19, 2004, the County Clerk entered into a capital lease agreement with Advantage Leasing Corporation for computer equipment used for record management. The lease is for four years and requires a monthly payment of \$1,499.97. The balance at December 31, 2005, was \$34,499. Under the fee pooling system, the Fiscal Court is now making payments on this lease.
- C. On January 1, 2005, the County Clerk entered into a capital lease agreement with Pitney Bowes Credit Corporation for a postage meter. This lease is for four years and requires a quarterly payment of \$564. The balance at December 31, 2005, was \$7,896. Under the fee pooling system, the Fiscal Court is now making payments on this lease.
- D. On September 1, 2005, the County Clerk entered into a capital lease agreement with Xerox for a copier. The lease is for five years and requires monthly payments of \$228.17. The balance at December 31, 2005, was \$13,006. Under the fee pooling system, the Fiscal Court is now making payments on this lease.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Johnson County Clerk for the year ended December 31, 2005, and have issued our report thereon dated April 27, 2006. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Johnson County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Johnson County Clerk's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

*Wells & Company, PSC*

Wells & Company, PSC  
Certified Public Accountants

Audit fieldwork completed-  
April 27, 2006